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C O N F I D E N T I A L SECTION 01 OF 02 HARARE 000970

SIPDIS

AF/S FOR BNEULING  
NSC FOR SENIOR AFRICA DIRECTOR C. COURVILLE  
USDOC FOR ROBERT TELCHIN  
TREASURY FOR OREN WYCHE-SHAW  
PASS USTR FOR FLORIZELLE LISER  
STATE PASS USAID FOR MARJORIE COPSON  
USDOL FOR ROBERT YOUNG

E.O. 12958: DECL: 12/31/2009

TAGS: [EINV](#) [ECON](#) [PGOV](#) [ZI](#)

SUBJECT: ANOTHER CASH CRUNCH COMING?

Classified By: Charge d'affaires Eric T. Schultz a.i. for reason 1.4 d

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Summary  
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1. (SBU) Zimbabwe's largest denominated bill, Z\$20,000 (US\$2 at the official exchange rate, less than US\$1 at the parallel market rate), appears to be growing scarcer, reportedly as a result of deliberate GOZ policy. It is being replaced with smaller bills that will prove cumbersome to use in commercial transactions. The GOZ approach is most commonly said to be an attempt to further restrict informal currency trading, but other theories also are being circulated. In any event, the net result could be another cash crunch, as in 2003, that will further damage the economy. End Summary.

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Growing Shortage of Large Denomination Bills  
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2. (SBU) Over the past two week, EmbOffs have noticed an increasing shortage of cash in retail shops. Rather than giving Z\$20,000, Z\$10,000, and Z\$5000 bearer check notes as change, grocery cashiers and others have been giving customers Z\$1000 (US\$0.10 at the GOZ auction rate and \$0.05 at the parallel market rate) bills in large quantities.

3. (C) Anecdotal evidence from the private sector contacts confirms a growing shortage. 3M Zimbabwe Managing Director Tham Mpofu told PolOff on July 12 that Barclay,s Bank recently provided him cash from his account in the form of Z\$5000 bearer check notes because they had run out of Z\$20,000 and Z\$10,000 notes. Another Embassy contact who runs a local drinking water supplier, reported that his company's difficulty in accessing sufficient cash had required it to open employee bank accounts in which to electronically deposit staff salaries. One Standard Chartered Bank contact told us that the RBZ would only take Z\$20,000 notes in overnight accommodation transfers but 60 percent of the RBZ deliveries to the bank the next day were in lower denomination paper.

4. (C) Yet another Embassy contact who runs a information technology firm told the CDA July 9 that he ha distributed his entire payroll the previous week in small bills when his bank was unable to supply him with anything larger than Z\$1000 notes. This individual noted that with rampant inflation and currency devaluation, the Z\$20,000 and Z\$10,000 notes had already been cumbersome to use. He routinely divided them into &clips8 of Z\$200,000, held together by a paper clip, and &bricks8 of Z\$2,000,000 held together by a rubber band. With smaller notes, he said he would have to switch to grocery bags and garbage bags to transport the currency.

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Result Likely To Be Another Cash Crisis  
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5. (SBU) Local bankers and businesspeople offer four main theories on the apparent growing shortage of cash. The first and most often cited theory is that the GOZ is intentionally restricting access to Z\$20,000 and Z\$10,000 notes in a misguided effort to deny cash to those they perceive as parallel market dealers - people with large sacks of small denomination currency will be easy for authorities to spot, the theory goes. Second, inflation is climbing so fast that the quantity of Z\$20,000 notes in circulation is insufficient to meet demand, resulting in the greater prominence of smaller notes. Third, the Reserve Bank of Zimbabwe (RBZ) is purposely limiting the circulation of local currency in anticipation of a change of national currency in early 2006. Finally, the forex-starved GOZ can no longer access sufficient quantities of paper stock and ink to meet demand

for notes in existing denominations.

16. (C) Whatever the explanation, the likely effect will be another cash crunch like the one in late 2003. At that time, banks limited withdrawals to the local currency equivalent of US\$5.00 (which led to long queues of panicked customers waiting to withdraw meager increments of their life savings). Zimbabweans found creative alternatives to cash as commerce stumbled along, but at a significantly reduced rate. The government solved the crisis by issuing larger denomination bills, the same bills it is now taking out of circulation. Moreover, RBZ contacts tell us that President Mugabe personally turned down RBZ proposals before the election to print Z\$100,000 and Z\$50,000 notes because "it wouldn't look good."

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Comment  
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17. (SBU) Already paralyzed by raging inflation, insufficient forex, and fuel and other shortages the Zimbabwean economy now faces another crisis ) a significant cash shortage that could paralyze economic activity. As with Zimbabwe,s other economic crises, this one is completely avoidable and is entirely a result of GOZ economic mismanagement. Moreover, the GOZ seems much less likely this time around to see the light and to reverse course. The current cabinet seems to have less economic expertise than even its highly challenged predecessors, and the one individual who should no better ) Gideon Gono ) seems powerless to do anything but follow one misguided order after another.  
SCHULTZ